

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04
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AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME

C O N F I D E N T I A L STOCKHOLM 3508

USOECD

USEEC

E.O. 11652: GDS
TAGS: EFIN, SW
SUBJ: SWEDISH FEARS OF DISSENSION IN G-10 AND POSSIBLE
EUROPEAN CURRENCY BLOC

1. SUMMARY: AS SEPTEMBER IMF MEETINGS APPROACH, SOME OF OUR
SWEDISH CONTACTS ARE CLEARLY TRYING TO SEND US A MESSAGE OF
CONCERN. SPEAKING STRICTLY UNOFFICIALLY, THEY FEAR EUROPEANS
MAY BE MOVING INTO A CURRENCY BLOC AND THEY SEE A SPECTRE OF
OPEN DISAGREEMENT AT NEXT G-10 MEETING. ALTHOUGH SWEDES
WILL NOT THEMSELVES REQUEST BILATERAL MEETING WITH USG, WE
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BELIEVE REQUEST FROM US SECRETARY OF THE TREASURY WOULD BE
VERY WARMLY RECEIVED AND MIGHT PAY HANDSOME DIVIDENDS.
END SUMMARY.

2. WASHINGTON OBSERVERS WILL RECALL THAT BEFORE MEXICO CITY
FUND MEETINGS SWEDES EXPRESSED CONCERN AT WIDENING GAP BETWEEN
"SMALL" MEMBERS AND US. SPECIFIC ISSUE WAS OF EXPANDING ROLE

OF G-10. SWEDEN HAVE MAINTAINED SINCE THAT TIME THAT THEY PLAYED MODERATING ROLE BETWEEN US AND BELGIANS AND HELPED PREVENT ANY KIND OF OPEN DISAGREEMENT AT MEXICO CITY. OUR CONTACTS BELIEVE ANY INDICATION OF DISAGREEMENT WITHIN RANKS OF G-10 THEN OR NOW WOULD BE DISASTROUS TO WORLD CURRENCY MARKETS IF SURFACED PUBLICLY.

3. WITHIN LAST SIX WEEKS, SWEDES CLAIM, UNREST HAS SPREAD. GROUP SEEKING FOR G-10 NOW INCLUDES AT LEAST GERMANS AND BENELUX, AND PROBABLY UK. DENMARK WOULD BE LIKELY TO FOLLOW "BIG BROTHER TO THE SOUTH". IN THIS CONNECTION, WEST GERMAN MINISTRY OF FINANCE OFFICIAL POHL EVIDENTLY MADE A SECRET TRIP TO SWEDEN IN LATE JULY. OSTENSIBLE PURPOSE OF TRIP WAS TO DELIVER HIS DRAFTS OF G-10 REPORTS ON GENERAL AGREEMENTS TO BORROW, BUT IN FACT DISCUSSIONS CONCENTRATED ON PROBLEMS CAUSED BY DECLINING DOLLAR, NEED FOR USING G-10 MORE EFFICACIOUSLY, AND EUROPEAN MONEY UNIFICATION. ONE SUGGESTION WHICH WAS NOT SPELLED OUT EXTENSIVELY IN THE COPY OF THE DRAFT REPORT (X/DEP/247) WHICH WAS BOOTLEGGED TO US WAS FOR VERY CLOSE COOPERATION BETWEEN G-10 ON ONE HAND AND SAUDI ARABIA AND IRAN ON THE OTHER.

4. SWEDES BELIEVE US SHOULD LOOK ON THESE EFFORTS WITHIN GROUP OF 10 IN A MUCH LARGER CONTEXT THAN TECHNICAL DISCUSSION OF AUTHORITY OR RESPONSIBILITIES OF GROUP. THEY BELIEVE CONTINUED DECLINE OF DOLLAR AND BENIGN NEGLECT ON THE PART OF USG (NOT NECESSARILY EVEN THE PRIVATE OPINION OF OUR CONTACTS, BUT EVI-CONFIDENTIAL

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DENTLY PUSHED STRONGLY BY POHL) IS TENDING TO PUSH THE EUROPEANS INTO SOME SORT OF CURRENCY BLOC ALIGNMENT. THEY SEE THE BREMEN ANNOUNCEMENTS ON EUROPEAN CURRENCY ALIGNMENT AS VERY MUCH A PART OF THIS TENDENCY, EVEN IF THOSE ANNOUNCEMENTS WERE PRIMARILY DESIGNED AS A SIGNAL TO THE US TO SHAPE UP, AS THEY VERY WELL MIGHT HAVE BEEN. THEY POINT OUT THAT JUST BEFORE THE PRESIDENT ARRIVED IN BONN POHL WAS ORCHESTRATING THIS SIGNAL FROM BREMEN. OUR FRIENDS HERE ARE AFRAID THAT IF THE US FAILS TO RESPOND TO PERCEIVED NEEDS OF THE EUROPEANS SOME FORM OF MONETARY UNION WILL EMERGE. THEY BELIEVE THIS WOULD BE DISASTROUS. INFLATION AND GROWTH RATES ARE SO DISPARATE AND CURRENT EXCHANGE RATES SO MIS-ALIGNED THAT EVEN A VERY FLEXIBLE NEW ALIGNMENT WOULD CAUSE SERIOUS PROBLEMS. WE PRESUME THE SWEDES WOULD REMAIN OUTSIDE EVEN THOUGH THEY ANNOUNCED WHEN LEAVING THE SNAKE IN APRIL 1977 THAT THEY WOULD BE WILLING TO REJOIN WHEN CONDITIONS WERE MORE PROPITIOUS.

5. AT THIS STAGE, IT WOULD APPEAR THAT THE IMMEDIATE CONCERN OF OUR FRIENDS HERE IS THAT SOME FORM OF DISAGREEMENT ON THE G-10 WILL EMERGE DURING SEPTEMBER MEETINGS AND THAT PUBLICITY WILL BE UNAVOIDABLE. AS AFOREMENTIONED, THE SWEDES BELIEVE WE WOULD THEN SEE DISASTROUS WAVES OF SPECULATION WHICH MIGHT TOTALLY DISRUPT

CURRENCY MARKETS.

6. WHILE THESE OBSERVATIONS MAY APPEAR SOMEWHAT CATAclySMIC TO WASHINGTON OBSERVERS, AND HAVE NEVER BEEN MENTIONED IN AN OFFICIAL WAY, THE SWEDES ARE CLEARLY TRYING TO GET A MESSAGE THROUGH TO US: SOME KIND OF COMPROMISE IS GOING TO BE NEXESSARY DURING SEPTEMBER MEETINGS. WHAT IS THE SWEDISH INTEREST? CONCERN ABOUT MARKET REPRECUSIONS IS OBVIOUS. THEY ARE LESS UPSET ABOUT THE IMMEDIATE EFFECTS OF A DECLINE IN THE DOLLAR'S VALUE BECAUSE THEY HAVE NOT BEEN VERY SERIOUSLY AFFECTED AND HAVE EVEN BENEFITTED BY WAY OF LOWER OIL PRICES. WE BELIEVE THEIR GREATEST CONCERN IS WITH WHAT THEY PRECEIVE AS A TENDENCY OF EUROPEANS TO GROUP INTO ONE CURRENCY BLOC WITH APPARENT CONFLICTS WITH "DOLLAR BLOC". SWEDES, WHO HAVE REMAINED OUTSIDE OF COMMON MARKET BECAUSE OF CONFIDENTIAL

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THEIR BASIC NEUTRALITY POLICY, AND WHO HAVE LITTLE BARGAINING STRENGTH OF THEIR OWN IN FORA DISCUSSING EITHER MONETARY OR TRADE PROBLEMS, MUST FACE REAL POSIBILITY OF BEING LEFT ON THE OUTSIDE. ARE THERE MORE BYZANTINE MOTIVES INVOLVED? IF SO, WE CANNOT DISCERN THEM.

7. ALTHOUGH SWEDES ARE NOT SEEKING BILATERAL MEETINGS WITH SEC-RETARY BLUMENTHAL, WE BELIEVE IT WOULD BE MOST ADVISABLE IF WE COULD SEEK SUCH A MEETING. WE KNOW FROM VARIOUS SOURCES THAT FINANCE MINISTER BOHMAN (WHOSE ENGLISH IS EXCELLENT) WOULD BE MOST FLATTERED BY SUCH AN APPROACH, AND BELIEVE THE REWARDS COULD BE SIGNIFICANT. BECAUSE OF BOHMAN'S ROLE AS OUTGOING CHAIRMAN OF GROUP OF 10 SUCH A REQUEST WOULD BE IN ORDER. PLEASE ADVISE. KENNEDY-MINOTT

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